

VZCZCXYZ0000
RR RUEHWEB

DE RUEHJM #0148/01 0251541
ZNR UUUUU ZZH
R 251541Z JAN 10
FM AMCONSUL JERUSALEM
TO RUEHC/SECSTATE WASHDC 7378
INFO RUEHTV/AMEMBASSY TEL AVIV 5139
RUEHAM/AMEMBASSY AMMAN 8771
RUEHEG/AMEMBASSY CAIRO 0004
RHEHNSC/NSC WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPCIM/CIMS NTDB WASHDC

UNCLAS JERUSALEM 000148

SIPDIS

STATE FOR EEB/IFD/OIA AND NEA/IPA; PASS OPIC, TDA, AND USTR

E.O. 12958: N/A
TAGS: [EINV](#) [EFIN](#) [ETRD](#) [ELAB](#) [KTDB](#) [PGOV](#) [USTR](#) [OPIC](#) [KWBG](#)
KPAL, IS
SUBJECT: 2010 INVESTMENT CLIMATE STATEMENT FOR THE WEST
BANK AND GAZA

REF: 09 STATE 124006

A.1 OVERVIEW OF FOREIGN INVESTMENT CLIMATE

The Palestinian private sector is talented and entrepreneurial, yet faces numerous obstacles to reaching its full potential. Palestinian businesses have a reputation for a high-level of professionalism and product quality, and large Palestinian enterprises are internationally connected, with partnerships extending to Asia, Europe, the Gulf, and the Americas. However, political instability resulting from the Israeli-Palestinian conflict, restrictions on the movement and access of goods and people within the West Bank and between the West Bank and Israel and Jordan, and import and export restrictions imposed by the Government of Israel (GOI) continue have a deleterious effect on the private sector and limit economic growth. The de facto rule in Gaza of Hamas, a designated Foreign Terrorist Organization (FTO), combined with GOI restrictions on imports and exports, severely constrains private sector opportunities in Gaza.

There have been some notable improvements in the West Bank's economic outlook over the past two years, driven primarily by improved security, economic reforms implemented under Palestinian Authority (PA) Prime Minister Salam Fayyad, and international donor support that has enabled the PA to pay salaries and arrears. Additionally, the GOI eased restrictions on the movement and access of people and goods within the West Bank over the past year and allowed Arab Israelis to enter and shop in a greater number of cities in the West Bank. Foreign investment has increased substantially over the last several years and the IMF predicts baseline growth of 6.5% in 2010 and 7.5% in 2011, although this scenario is dependent on continued easing of movement and access restrictions and the facilitation of external trade.

Palestinians have a young population, and the work force in the West Bank/Gaza is expected to expand significantly over the next several decades. Much of this labor force is highly educated, multilingual, and well-versed in the technologies and practices conducive to doing business on a global level. The services sector is the largest contributor to the economy (largely driven by government expansion), representing 55% of GDP, according to 2008 statistics. The information and communications technology sector is one of the fastest growing sectors in the Palestinian Territories, with an average growth rate of 25-30% since 2000, according to PA statistics. With a growing number of high tech-focused college graduates, one of the highest Internet penetration

rates in the Middle East, and competitive salaries, software development, and outsourcing are considered attractive sectors for potential investors.

Since June 2007, the PA has demonstrated a renewed determination to improve the investment climate and to attract foreign investment. The PA undertook a number of significant reforms and prepared the 2008-2010 Palestinian Development and Reform Plan (PDRP) in December 2007, a set of broad economic policies that focus on stimulating growth through private sector investment and consolidating public finances. Fayyad then expanded on the PDRP through his two-year plan for statehood in August 2009, which also emphasized the role of the private sector and the importance of an enabling investment environment. A revised multi-year reform and development framework for 2011-2013 is in draft form as of January 2010 and is expected to focus on the same themes. The PA has also focused on legal reforms as a means of improving the investment environment, and is currently drafting a new competition law, a trademark/copyright law, a company law, a bankruptcy law, and various amendments to the investment law.

Since 1995, the PA has taken steps to facilitate and increase foreign trade by signing free trade agreements with the European Union, the European Free Trade Association (EFTA), the United States, Canada, and Turkey. The PA has finalized other trade agreements with Russia, Jordan, Egypt, the Gulf States, Morocco, and Tunisia. The PA has also expressed interest in obtaining observer status in the World Trade Organization (WTO), and participated in the 2005 and 2009 WTO Ministerial meetings as an ad hoc observer. In 2008, the PA

hosted a successful investment conference in Bethlehem, and subsequently participated in numerous follow-up trade and investment promotion events, including in London, Tokyo, and Washington, D.C.

Measure	Year	Index/Ranking
TI Corruption Index		N/A
Heritage Economic Freedom		N/A
World Bank Doing Business Index	2010	139/183
MCC Rankings		N/A

This report focuses on investment issues related to areas under the administrative jurisdiction of the PA, except where explicitly stated. Given the changing circumstances on the ground, potential investors are encouraged to contact the Palestinian Investment Promotion Agency (www.pipa.gov.ps), the Palestine Trade Center (www.paltrade.org), and the Palestinian-American Chamber of Commerce (www.pal-am.com), as well as the U.S. Consulate General in Jerusalem and the Foreign Commercial Service for the latest information.

Where applicable, this report addresses issues related to investment in the Gaza Strip, although there are currently no opportunities for meaningful private investment in Gaza due to Hamas's control and Israeli restrictions on the flow of imports and exports, as of the time of this writing.

The legal framework for foreign investment in the West Bank/Gaza is based on the PA Investment Promotion Law, as amended in 1998. All business entities must be registered with the Palestinian Investment Promotion Agency's registry of investments either in the West Bank or Gaza. According to existing PA company laws, there are three different types of companies which may be incorporated:

- **General Partnership:** The liability of each partner in a general partnership is unlimited. All partners are personally responsible for the liabilities of the partnership. The name of at least one of the partners must be included in the title of the General Partnership.
- **Limited Partnership:** This includes two different types of partners: general and limited. A limited partnership must have at least one general partner who is personally responsible for the liabilities of the company. There is also

at least one limited partner whose liability is limited to the amount of the capital.

- Local Companies (Limited Liability Company (LLC) and Public Liability): Most investors prefer to use LLCs for the purposes of conducting commercial affairs. The procedures that have to be followed to register this form of company are as follows:

1. Obtain temporary copy of certificate of registration from the Ministry.
2. Deposit initial capital, which is 25 percent of the capital plus official bank fees (1/1000 of stated capital).
3. Obtain signature of the required documents by a local lawyer.
4. Register with the commercial Registry.
5. Pay registration fee.
6. Register for income and VAT.
7. Register with Chamber of Commerce.
8. Obtain business license from the Municipality.
9. Obtain and legalize special company books.

Certain investment categories require the Council of Ministers' pre-approval. These include investments involving (1) weapons and ammunition, (2) aviation products and airport construction, (3) electrical power generation/distribution, (4) reprocessing of petroleum and its derivatives, (5) waste and solid waste reprocessing, (6) wired and wireless telecommunication, and (7) radio and television. Purchase of land by foreigners also requires the approval of the Council of Ministers.

A.2 CONVERSION AND TRANSFER POLICIES

The 1998 Investment Law guarantees investors the free transfer of all financial resources out of the Palestinian Territories, including capital, profits, dividends, wages,

salaries, and interest and principal payments on debts. No Palestinian currency exists, but the New Israeli Shekel (NIS) is the accepted currency, and U.S. dollars and Jordanian dinars (JD) are widely used in business transactions. There are no other PA restrictions governing foreign currency accounts and currency transfer policies.

A.3 EXPROPRIATION AND COMPENSATION

The 1998 Investment Law prohibits expropriation and nationalization of approved foreign investments, except in exceptional cases for a public purpose with due process of law, which shall be in return for fair compensation based on market prices and for losses suffered because of such expropriation. The PA must secure a court decision before proceeding with expropriation.

PA sources and independent lawyers say that any Palestinian citizen can file a petition or a lawsuit against the PA. There are on-going court cases involving illegal confiscation of property by senior PA officials; however, there has been no ruling on many of these cases. A general lack of confidence in the judicial system has prompted citizens to look for alternative means of arbitration to resolve such disputes, though this situation is slowly improving.

A.4 DISPUTE SETTLEMENT

The 1998 Investment Law provides for dispute resolution between the investor and official agencies by binding independent arbitration or in Palestinian courts. It has been reported that some contracts contain clauses referring dispute resolutions to the London Court of Arbitration.

The PA is not a member of the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention).

Commercial disputes are resolved by way of conciliation, mediation, or arbitration. Arbitration in the Palestinian

Territories is governed by Law No. (3) of 2000. International arbitration is permitted. The law sets out the basis for court recognition and enforcement of awards. As a general rule, every dispute may be referred to arbitration by the agreement of the parties, unless prohibited by the law. Article 4 of the law states that certain disputes cannot be referred to arbitration, including those involving marital status, public order issues, and cases where no conciliation is permitted. In the event that parties do not agree on the formation of the arbitration panel, each party may choose an arbitrator and arbitrators shall choose a casting arbitrator unless the parties agree to proceed otherwise.

Judgments made in other countries that need to be enforced in the West Bank/Gaza are honored, according to the prevailing law in the West Bank, mainly Jordanian Law No 8 of 1952. The law covers many issues in relation to the enforcement of foreign judgments.

A.5 PERFORMANCE REQUIREMENTS AND INCENTIVES

The 1998 Investment Law provides a number of incentives, including exemptions from value added and income taxes, for certain categories of PA-approved domestic and foreign investment. An amendment currently awaiting the PA President's signature would extend these incentives to new development on existing projects and, in an effort to attract business in the information and communication technology sector, all companies that employ at least five college graduates. To benefit from these incentives, investors must apply to the Palestinian Investment Promotion Agency (PIPA), a department of the PA Ministry of National Economy, and present it with a completed investment application and feasibility study. PIPA is composed of both public and private sector members. As of January 2010, PIPA has announced efforts to increase incentives to foreign investors, though the details and timing of implementation were not known at the time of writing.

The PA income tax law is intended to incorporate both West Bank and Gaza. The corporate tax rate is 15 percent. Personal income tax is specified according to the following

(though additional factors such as dependents and exemptions affect the base rate):

- 5 percent for income up to NIS 10,000;
- 10 percent for income between NIS 10,001 - 25,000; and
- 15 percent for all incomes above NIS 25,001.

Custom duties - The Palestinian Territories are in the same customs envelope as Israel, so all customs and tariffs are in line with Israeli rates:

Base: On the value of imports.

Rates: From zero to 340 percent for food, animal and agriculture products; and zero to 22 percent for all other products.

Purchase tax:

Base: Value of imports plus customs fees.

Rates: five to 200 percent.

Value added tax:

Base: all imported goods.

Rates: 16 percent.

A 20 percent tax is withheld at source from dividends distributed in the West Bank/Gaza to shareholders of a foreign company. There are no taxes due on dividends distributed to shareholders of Palestinian companies regardless of where they live or their nationality, and regardless of whether they are an individual or a company. An automatic deduction at the source of 25 percent is withheld from companies, unless they obtain a "Deduction at the Source Certificate," which grants a reduced rate that ranges between zero and five percent. Applications for these certificates are available from PA district tax offices.

Article 22 of the PA investment law provides that fixed assets are given the following exemptions:

- a. The project's fixed assets shall be exempted from customs duties and taxes provided that they are brought in within a period specified by the Authority's decision approving the lists of fixed assets of the project.
- b. The spare parts imported for the project shall be exempted from customs duties and taxes, provided that the value of such spare parts does not exceed 15 percent of the value of the fixed assets and that they are brought in or used in the project within a period specified by the Authority.

Article 23 of the law provides that the projects approved by the PA and which have obtained the licenses required under the law shall be granted the incentives mentioned in this law in the following manner:

- a. Any investment with a value ranging from USD 100,000 to USD one million shall be granted an exemption from income tax for a period of five years beginning from the date of commencement of production or commencement of activity and shall be subject to income tax on the net profit at a nominal rate of 10 percent for an additional period of eight years.
- b. Any investment with a value from USD one million to USD five million shall be granted an exemption from income tax for a period of five years beginning from the date of commencement of production or activity and shall be subject to income tax on the net profit at a nominal rate of 10 percent for an additional period of 12 years. Any investment with value of USD five million and above shall be granted an exemption from income tax for a period of five years beginning from the date of commencement of production or activity and shall be subject to income tax on the net profit at a nominal rate of 10 percent for an additional period of 16 years.

Article 24 of the Law provides that the Palestinian Council of Ministers may extend the exemption periods up to five years, depending on the nature and location of the enterprise. The exemption period may be extended an additional two years if the local input in equipment, machines, and fixtures exceeds 60%.

While the PA does not require foreign nationals working in the West Bank to seek work permits, the GOI does require foreigners to obtain Israeli visas. According to the GOI, foreign nationals should either apply to Israeli Embassies in their country of origin, or through the Israeli Coordinator of Government Affairs in the Territories (COGAT) after their arrival in the West Bank. Recently, there have been cases of foreign nationals working in the West Bank who have been prohibited from traveling to Israel and Jerusalem from the West Bank because of their ties to the Palestinian Territories.

A.6 RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

Jordanian law in the West Bank, as amended by PA regulations, guarantees the right to private ownership. Similarly, the right to private ownership in Gaza is guaranteed by British Mandate law, as amended by regulations issued by the PA. Foreigners must obtain permission from the PA before purchasing property in areas under PA civil authority and from the appropriate Israeli authorities before purchasing property in West Bank areas under Israeli control ("Area C"). PIPA outlines the following concerning foreign ownership of property:

The Acquisition Law in the West Bank, which regulates foreign acquisition and the rental or lease of immovable properties, classifies foreigners into three categories:

-- Foreigners who formerly possessed Palestinian or Jordanian passports shall have the right to own certain properties

sufficient to erect buildings and/or for their agricultural projects.

-- Foreigners who hold other Arab nationality passports have the right to own certain property that suffices for their living and business needs only.

-- Other foreigners must receive permission from the PA Cabinet to own buildings or purchase land.

It is critical that potential purchasers of land or buildings perform a title search to be assured that no outstanding violations or unpaid penalties exist on the property. Under current law, violations and penalties are transferred to the new owner.

Accurate title search can only be obtained from the PA Land Authority (al-Taboh). Land registration is done through the Land Registries in Hebron, Ramallah, Qalqilya, Tulkarem, Nablus, Bethlehem, Jericho, Jenin, and Gaza City. In order to purchase land in the West Bank or Gaza, an application that includes supporting documents, such as deeds to the property and powers of attorney, should be submitted to the land registry office having jurisdiction over the land.

A.7 PROTECTION OF PROPERTY RIGHTS

The West Bank and Gaza do not have a modern intellectual property rights (IPR) regime in place. The PA was indirectly committed to the GATT-TRIPS agreement when it signed the Interim Agreement on West Bank/Gaza according to Annex III (Protocol Concerning Civil Affairs), Appendix 1, Article 23. All IPR legislation originates from British Mandate Law regardless of the change in control over the years. Pre-1967 era Jordanian laws concerning trademarks, patents, and designs are applicable in the West Bank. In Gaza, the Palestinian Trademark and Patent Laws of 1938, adopted during the British Mandate, are applicable. Registration under the two laws is very similar, and, despite different authorizing legislation, there are few substantive differences between IPR laws in the West Bank and Gaza Strip. According to PA contacts, the PA is working on a modern law that will encompass intellectual property rights, including copyright, patents and designs, trademarks, and merchandise branding.

Currently, intellectual property is governed by the Civil Claims Law of 1933 in Gaza, and the Commercial Law No. 19 of 1953 and the Patent Law No. 22 of 1953 in the West Bank.

Trademarks are governed by Law No 33 of 1952 in the West Bank and Trademark Law No. 35 of 1938 in Gaza. The period of initial protection of trademarks is seven years, and

trademarks may be renewed for successive periods of time. The Patents and Design Law No. 22 of 1953 is applicable in the West Bank and the Patents Design Law No 64 of 1947 is applicable in Gaza. A foreign company is entitled to have a patent or design registered by giving power of attorney in this regard to a patent agent or to a lawyer, with the requisite documents. In order to register a trademark, four copies of the proposed trademark must be attached to the application, one of them in color, along with a copy of the company's Certificate of Registration.

Copyright in the Palestinian Territories is governed by the Copyrights laws of 1911 and 1924. The protection lasts for a period of 50 years after the death of the author of the work. The law also deals with infringements, compulsory licenses, and many other procedural issues as well.

The law prescribes imprisonment for a maximum period of one year or a fine not exceeding 100 Jordanian dinars for infringement of a registered mark. A foreign company is entitled to register its trademark in the Palestinian Territories by giving power of attorney in this regard either to a trademark agent or to a lawyer. Trademarks can be registered unless they fall within the recognized prohibition, such as being similar to or identical to an

already registered trademark, are likely to lead to deception of the public, or are contrary to public morality.

Patent protection is provided for a period of 16 years from the date of filing the patent application. Furthermore, both systems require licensing of anything already patented if the reasonable requirements have not been met. Trademark protection is available for registered trademarks for a period of seven years, which may be extended for additional periods of 14 years. The proprietor of a trademark in WB/G owns the sole right to the use of the trademark in association with the goods with which the trademark is registered. The trademark is open for opposition after being published in the Gazette for a period of three months. The holder of a trademark retains the right to bring civil action against any perpetrator in addition to criminal proceedings. There is minimal enforcement of IPR laws for music and movies in the West Bank/Gaza, while the PA has enforced some of these laws to protect the Palestinian pharmaceutical industry.

The PA is keen to obtain membership in the different organizations and agreements concerned with intellectual property such as the World Trade Organization (WTO) and the World Intellectual Property Organization, where it has held observer status since 2005. It should be noted that trade names are registered in the Palestinian Territories according to specific procedures and conditions that are laid out in the Jordanian Trade Names Registration Law No. 30 of 1953, which is still applicable in the West Bank, and Law No. 1 of 1929 in Gaza.

A.8 TRANSPARENCY OF THE REGULATORY SYSTEM

The PA has worked to erect a sound legislative framework for business and other economic activity in the areas under its jurisdiction since its creation in 1994; however, implementation and monitoring of implementation needs to be strengthened, according to many observers. The PA Ministry of National Economy, with the assistance of international donors, is in the process of drafting a number of proposed laws related to business and commercial regulation, including regulation of competition, bankruptcy, trademark and copyright, and amendments to the investment law. The Ministry of National Economy regularly holds stakeholder meetings for draft commercial legislation to gather input from the private sector and published drafts of the proposed law. It is worth noting, however, that the continued inability of the Palestinian Legislative Council (PLC) to meet its quorum means that each law must be adopted as a presidential decree, which often delays reform efforts. The laws and amendments will need to be approved by the PLC, should it reconvene in the future.

There is a regulatory body that governs the insurance sector, and the PA, with donor assistance, has made progress on setting up an independent telecom regulator.

A.9 EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

Major progress was achieved in 2004 with the passage by the PLC of the Capital Markets Authority Law, the Securities Commission Law, and the establishment of the Capital Market Authority, the regulator of the stock exchange and insurance industries.

Twenty banks operate in the Palestinian Territories, several of which are foreign banks, mostly Jordanian; the top three banks have assets of more than USD4 billion combined. No Palestinian currency exists, and, as a result, the PA places no restrictions on foreign currency accounts. The Palestinian Monetary Authority (PMA) is responsible for bank regulation in both the West Bank and Gaza. Palestinian banks are some of the most liquid in the region with more than USD7 billion in assets at the end of 2008 and credit exposure of only USD1.7 billion. Palestinian banks have remained stable despite the global economic crisis, but have suffered from deteriorated relations with Israeli correspondents since the Hamas takeover in Gaza in 2007, at which time Israeli banks

cut ties with Gaza branches and have gradually restricted cash services provided to West Bank branches. More recently, Israeli restrictions on the movement of cash between West Bank and Gaza branches of Palestinian banks have caused intermittent liquidity crises in Gaza for all major currencies - U.S. dollars, Jordanian dinars and Israeli shekels.

Credit is limited by concerns over uncertain political and economic conditions and limited availability of real estate collateral due to non-registration of most West Bank land. The PMA has taken steps to improve the sector's loan to deposit ratio in 2009 from 28% to 38% by encouraging banks to participate in loan guarantee programs sponsored by the United States and international financial institutions, supporting a national strategy on microfinance, and putting in restrictions on foreign placements. The Ministry of National Economy has drafted legislation that would allow the use of moveable assets, such as equipment, as collateral for loans.

In early 1997, the Palestinian Securities Exchange (PSE) started operations on a limited scale in the West Bank city of Nablus. Thirty-nine shareholding companies have been approved for listing, spanning a wide range of sectors, including banking, services, and insurance, and more are expected to be listed soon as the Securities Law and the Capital Markets Authority strengthen the legal framework of the PSE. There are currently an estimated 40 Palestinian companies eligible to be listed on the Exchange with a market capitalization of over USD one billion.

A.10 COMPETITION FROM STATE-OWNED ENTERPRISES

Although there are no state owned enterprises, some contacts have noted that the Palestine Investment Fund (PIF), an investment fund that essentially acts as a sovereign wealth fund, enjoys a competitive advantage in some sectors, including housing and telecom, due to its close ties with the PA.

A.11 CORPORATE SOCIAL RESPONSIBILITY (CSR)

There is a growing awareness of corporate social responsibility among both producers and consumers in the Palestinian Territories. While CSR is not mandated by law or regulation, some of the largest corporations have set up or funded foundations to promote educational opportunities, economic and social development, and protect the environment. Several local companies have recently qualified for fair trade certifications, which entail community involvement and economic sustainability initiatives.

A.12 POLITICAL VIOLENCE

In June 2007, Hamas violently seized control of Gaza, effectively removing the PA from government facilities. Since that time, crossings between Israel and Gaza have been closed by Israel, with only limited humanitarian shipments and certain commercial shipments allowed to enter Gaza. The economic situation and investment outlook in Gaza further

deteriorated following Israeli combat operations there during December 2008 and January 2009 ("Operation Cast Lead"). Even before the substantial physical damage sustained by the private sector during the military operation, the World Bank estimated as many as 90% of private sector businesses had closed. Exports from Gaza are now almost entirely restricted and economic activity in Gaza has fallen precipitously. While some limited reconstruction materials have been allowed into Gaza to assist with rebuilding infrastructure, the private sector has increasingly turned to the illicit tunnel economy to procure commercial goods and reconstruction materials.

The State Department, at the time of this writing, has in place a travel warning that urges American citizens to avoid all travel in the Gaza Strip and to exercise caution when

traveling in the West Bank.

A.13 CORRUPTION

Corruption is criminalized under the Anti-Graft Law (AGL) of 2005, and the State Audit and Administrative Control Law and Civil Service Law both aim to prevent favoritism, conflict of interest, or exploitation of position for personal gain. The Attorney General's office is tasked with following up on the issue of corruption and corrupt officials. However, the PLC, which is the body responsible for oversight of the PA's executive branch, has not met since mid-2007. This lack of oversight and accountability of the executive branch has raised transparency concerns. Palestinian civil society and media are active advocates of anti-corruption measures, and there are also international and Palestinian non-governmental organizations that work to raise public awareness and promote anti-corruption initiatives. The most active of these is as the AMAN Coalition for Integrity and Accountability, the Palestinian chapter of Transparency International.

The U.S. Consulate General in Jerusalem has received reports of potential foreign and domestic investors being asked to provide inducement fees or to include well-connected persons in their business arrangements to help secure a contract. There are no reliable means of determining where or to what extent this kind of activity occurs.

A.14 BILATERAL INVESTMENT AGREEMENTS

The PLO, on behalf of the PA, has signed international trade agreements, which refer implicitly or explicitly to WTO rules. These include:

- 1) Paris Protocol Agreement with Israel (1994) - free trade in products between Israel and Palestinian markets
- 2) Technical and Economic Cooperation Accord with Egypt (1994)
- 3) Trade Agreement between the PA and Jordan (1995)
- 3) Duty Free Arrangements with the United States (1996)
- 4) The EuroMed Interim Association Agreement on Trade and Co-operation (1997)
- 5) Interim Agreement between European Free Trade Area (EFTA) states and the PLO (1997)
- 6) Joint Canadian-Palestinian Framework for Economic Cooperation and Trade (1999)
- 7) Agreement on Commercial Cooperation with Russia - extends MFN status
- 8) Greater Arab Free Trade Area, to which PA is a party (2001)
- 9) Free Trade Agreement with Turkey (2004)
- 10) Unilateral acts by other Arab trade partners extending preferential treatment to trade with Palestine

Since 1996, duty-free treatment has been available to all goods exported from the West Bank/Gaza to the United States, provided they meet qualifying criteria as spelled out in the U.S.-Israel Free Trade Area (FTA) Implementation Act of 1985, as amended. The duty-free benefits accorded under the FTA exceed those benefits which would be provided under the Generalized System of Preferences (GSP).

A.15 OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

OPIC provides a variety of services to qualified U.S. investors in emerging economies and developing nations.

During the early stages of investment planning, U.S. investors may contact OPIC for insurance against political violence, inconvertibility of currency, and expropriation in the form of an insurance registration letter. OPIC insurance is not available after the investment has been irrevocably committed. OPIC has initiated a number of programs in the West Bank and Gaza to support private sector development, including a loan guarantee facility.

The World Bank, via a USD 20 million fund administered by its Multilateral Investment Guarantee Agency (MIGA), provides

guarantees in the form of insurance against political risk for private investments in the West Bank and Gaza. Under the terms of the Fund, investors who are nationals of or companies incorporated in a MIGA member country, or who are Palestinian residents of the West Bank or Gaza, are eligible to obtain guarantees for up to 15 years. The Fund currently has the capacity to issue guarantees for up to USD five million per project.

A.16 LABOR

With its growing youth population, the Palestinian Territories have an abundant labor supply with a high level of education and skills. Despite the political obstacles caused by Israeli permit restrictions, the separation barrier, closures, and the difficulty of moving within and between the West Bank/Gaza and Israel, the labor market has been successful in creating more employment locally. The dependency ratio remains high, with each worker supporting 5.6 people in 2008 (compared to 4.8 in the third quarter of 2000). As the GOI has restricted the number of labor permits available to Palestinians, border areas such as Jenin, Tulkarem, and Qalqilya have seen their unemployment rates increase substantially above the West Bank average.

PCBS reported in December 2009 the following unemployment levels:

West Bank - 25.8 percent

Gaza Strip - 42.3 percent

As of December 2009, PCBS reported that 25 percent of jobs in the West Bank/Gaza were in the public sector (16.3 percent in the West Bank and 48.4 percent in Gaza Strip.) The results showed that the highest percentage of unemployment was concentrated among youth aged 15-29 years.

The working age population (over the age of 15) reached 2,298,700 (56 percent of the Palestinian population) in December 2009, according to PCBS.

Labor force distribution (percentage) by sector is as follows:
(Source: PCBS labor report in December 2009)

West Bank

12.8 percent - Agriculture, Forestry, Fishing, Hunting

13.6 percent - Mining, Quarrying, Manufacturing

10 percent - Construction

21.4 percent - Commerce, Hotels, Restaurants

6.1 percent - Transportation, Storage, Communication

36.1 percent - Services and other

Gaza

4.9 percent - Agriculture, Forestry, Fishing, Hunting

6.0 percent - Mining, Quarrying, Manufacturing

0.9 percent - Construction

18.6 percent - Commerce, Hotels, Restaurants

6.4 percent - Transportation, Storage, Communication

63.2 percent - Services and other

A.17 FOREIGN TRADE ZONES/FREE PORTS

There are no foreign trade zones or free ports in West Bank or Gaza.

A.18 FOREIGN DIRECT INVESTMENT (FDI) STATISTICS

The PA has not yet compiled a complete listing of foreign direct investments, but PCBS statistics indicate that 2008 FDI amounted to USD 59.8 million, up from USD 38 million in 2006. Limited foreign investment flows began in 1994-95, with the majority of funds coming from Palestinian investors.

The largest foreign company in the West Bank/Gaza is the Palestine Development and Investment Company (PADICO), which has invested over USD 500 million in the economy. Key PADICO investors include Diaspora Palestinians from Jordan, Great Britain, and the Gulf. PADICO has made significant investments in telecommunications, housing, and the

establishment of the Palestinian Securities Exchange. Another large foreign investment group active in West Bank with authorized capital of over USD 100 million is the Arab Palestinian Investment Company (APIC), which is headquartered in Ramallah. Other significant potential foreign investments include Qatari mobile operator QTel's projected USD 600 million investment in Wataniya Mobile over a 10-year period, and Qatari Diar's projected USD 500 million investment in Rawabi, a mixed use/affordable housing real estate development.

RUBINSTEIN